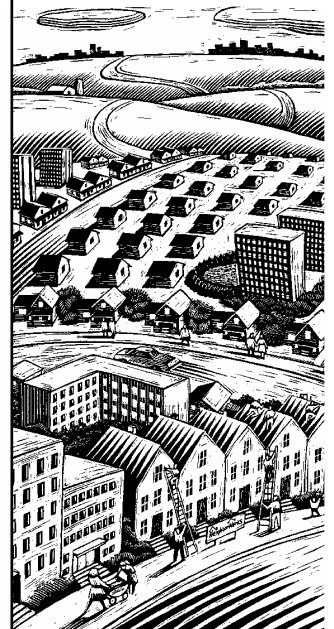


# **Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties**

**A Case Study of Montevista in  
Milpitas, California**

**November 2005**



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## **Case Study of Montevista in Milpitas, CA**

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**Produced by  
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## Site at a Glance: Montevista in Milpitas, California



Property	Residents	Neighborhood (Census Tract)
<p>306 units</p> <p>87 LIHTC units &lt; 50% AMI 76 LIHTC units &lt; 60% AMI 143 market-rate units</p> <p>Built in 1998 as infill development to meet City goal to increase affordable housing</p> <p>Sponsor: BRIDGE Housing Corporation.</p> <p>Manager: BRIDGE Property Management Company</p> <p>Vacancy Rate: 5%</p> <p>Annual Turnover Rate: Market-Rate: 80% Tax Credit: 9%</p>	<p>687 Residents Median Income: \$44,433 (47.3% of AMI)</p> <p>0- 30% AMI: 19% 31-80% AMI: 56% &gt;80% AMI: 25%</p> <p>The racial composition is not available, but is reported to be similar to the city.</p> <ul style="list-style-type: none"> <li>Units contain up to 7 people, but average is between 2 and 3 people per unit.</li> <li>Approximately 85% of households have at least one employed adult.</li> <li>13% of available units are rented by voucher holders.</li> </ul>	<p>5478 Residents</p> <p>2004 median income : \$80,198 (85.4% of AMI)</p> <p>3.5 percent poverty rate</p> <p>40% Hispanic 26% Asian 21% White (non-Hispanic) 8% Black 5% Multiple Races/Other Race</p> <ul style="list-style-type: none"> <li>In a City that boomed during Silicon Valley heyday and then fell during 2000 recession.</li> <li>Competition is new market-rate developments that were in the pipeline during boom and came on line during downturn.</li> <li>Walking distance from many amenities such as movie theaters, the largest shopping mall on the West Coast, light rail, and within short drive of everything else.</li> <li>However, also near one disamenity: a County Correctional Facility is across the street from rear of development.</li> </ul>

### Keys to Success

- Spent substantial pre-redevelopment time studying local rental properties and learning what would draw market-rate renters.
- Believe all staff are part of the marketing of the development, so hire, train, and monitor all staff to ensure quality professional presentation with every resident and applicant encounter.
- Located in city with high incomes and lots of amenities, but shortage of affordable housing.
- Designed to look inward with natural berms and strategically placed barriers to mitigate impact of nearby disamenities.
- Provided parking as amenity and require parking permits to maintain control of who comes into the development.
- Size of development allows them to hire leasing agents who can specialize in selling the development rather than people who need to also be property managers and be able to meet the detailed requirements of tax credit compliance.

## **Section 1: What Type of Mixed-Income Property is this and Why Does it Work?**

Montevista was built in 1998 and is a 306-unit mixed-income, mixed-race property in Milpitas, California. Milpitas is a small city outside San Jose that boomed along with the rest of Silicon Valley in the 1990s and then cooled off in the early 2000s. It remains a relatively prosperous, low crime, and low unemployment city.

Montevista contains a nearly even mix of affordable tax credit and market-rate units. The residents are economically diverse with household incomes that range from below \$10,000 to over \$200,000. The residents are also racially diverse with substantial shares of Asians, Hispanics, and whites.

### **a. What Mixed Income/Mixed Race Model(s) Does Montevista Typify?**

1. Montevista typifies the model where a mixed income/mixed race *property has been developed through major public intervention/funding*. The City of Milpitas hired a nonprofit developer to identify land for affordable housing to help fill a vast shortage in the area. Once the site was selected, the State, County, and City programs—through a variety of sources —provided loans and grants of approximately \$34 million and an additional \$7 million of private equity was obtained from tax credits awarded by the state. Nevertheless, unlike a similar-scale HOPE VI project, Montevista did rely more on loans that need to be repaid than grants.
2. Montevista was also located in a “*hot real estate market*” where the shortage of housing for all income levels made high-end mixed-income housing feasible. While the economy has stalled after the Internet bust in the early 2000s, two-bedroom townhouses in the area are still advertised for sale at over \$600,000. The Montevista neighborhood was comprised of relatively undeveloped land in the mid 1990s, so this is an example of a hot real estate market pushing previously undeveloped land to the forefront of development.

### **b. Why is Montevista a Successful Mixed Income/Mixed Race Property?**

Montevista’s success is attributable to combining sound real estate principals with a high-quality product in a desirable city.

1. *The developers took the time to understand the local market.* The developers spent substantial pre-development time studying the local market. They knew they could draw affordable renters because they already had a lot of experience with affordable housing and because of the shortage of nearby affordable housing. So, they focused their research on the market for higher-income renters. They commissioned a market study and visited all the properties in Milpitas and the surrounding cities to understand what would attract market-rate renters. The

amenities they chose included private garages, a gated community, a pool, a fitness center, a business center, and a sport court.

2. *The buildings were designed to mitigate nearby disamenities and maximize curb appeal.* The property has two-lane roads on two sides, and across the street are an elevated light rail and a correctional facility. To mitigate these disamenities, the buildings were built in from the exterior of the property and face inward with views of the property. They also used landscaping and vine-covered walls to obstruct the views of the light rail and prison as well as additional landscaping to beautify the site. The exteriors of the buildings are also attractively painted and the units have balconies with attractive railings. The buildings were grouped in seven different clusters to minimize the scale of the development and provide smaller communities within the larger community
3. *Embrace the attitude that all employees are part of marketing the development.* They hire, train, and monitor all staff to ensure a professional encounter with every resident and prospect they encounter. The management and leasing staff dress professionally in suits and similar attire while the maintenance staff are provided uniforms. The maintenance uniforms are even washed for staff to ensure they remain professional looking. All employees are expected to greet potential renters in a friendly and considerate manner. Furthermore, the management and leasing office has a very welcoming entryway with comfortable couches and other furnishings similar to a high quality hotel.
4. *Montevista was located in a city with high incomes and lots of amenities, but a shortage of affordable housing.* The shortage of housing in the area for renters of all income levels made the development a good market fit and management was able to stabilize occupancy quickly in the early years. The low-poverty, low-crime neighborhood and the access to transportation (both light rail and highways) and other amenities still make it a desirable location even though the market is much softer now and vacancies are harder to fill.
5. *Control access to the site.* The developer provided a garage and surface parking spot as an amenity, but requires parking permits to maintain control of who comes into the development. Except for the management and leasing office parking lot, the parking lots are gated and the parking permit is needed to open the gate. The on-site management and the three management and maintenance staff that live on the site also provide extra eyes and ears to watch the site. Furthermore, in the evenings, it is patrolled at least five times by a courtesy patrol.
6. *Leasing and management functions are separated.* The size of the development allows the property manager to hire staff with the primary responsibility of leasing units. This means they can hire people who can specialize in selling the development rather than people who also need to be property managers and be able to meet the detailed requirements of tax credit compliance. While in the

same building, the leasing staff have office space separate from the property managers.

### **c. What Hypotheses about Successful Mixed Income Housing Does Montevista Support?**

Montevista is a successful example of the following hypotheses about mixed-income housing.

1. *Mixed-income housing in strong real estate markets allows for a wider mix of incomes than in weaker market areas.* Montevista was built in a relatively prosperous area with a shortage of all types of housing, but particularly affordable housing. This situation allowed the developer to establish a mixed-income property with both extremely low income (< 30 percent of the median) households and households with income well above the median.
2. *Mixed-income housing works best where there is intentionality on the part of the developer to see that the project mix works well.* The mixed-income aspect of the development was intentional from the beginning as the City wanted additional rental housing for all income groups. The developer designed the affordable units to be indistinguishable from the market-rate units and both are dispersed throughout the development. The developer also provided community amenities that people of all income levels appreciate, although they are usually not found in a purely affordable development. There are no services or amenities on site that would draw only one income group and thus distinguish one income group from another.

## **Section 2: History of the Property**

### **a. Development History**

Montevista was built on vacant, County-owned land that had formerly been an agricultural area. Santa Clara County had purchased the land in case the nearby correctional facility was expanded. However, the prison was never expanded.

The BRIDGE Housing Corporation (BRIDGE) identified the land for development in the mid-1990s after the City of Milpitas Redevelopment Agency (RDA) selected them to identify affordable housing sites. At the time, there was a severe shortage of housing—particularly housing for low-income families—in the city and county because of the booming Silicon Valley economy. However, the property and thus development size was deemed too large to be purely affordable housing. Instead, the County and City agreed on the site for Mixed-Income housing, so BRIDGE purchased the land from the County and began development in August 1997. The construction was not completed until early 1999, but BRIDGE had started renting the units available for occupancy in the fall of 1998.

The original plan called for 153 affordable and 153 market-rate units. However, toward the end of the project, BRIDGE decided that they had the funding to increase the number of affordable housing units. The final split was 163 affordable units (53%) and 143 market-rate units (47%).

## **b. Ownership and Management Team**

Montevista is owned by Milpitas Housing Associates, a limited partnership that is controlled by its general partner, Milpitas, Housing Inc.. Milpitas Housing, Inc. is a nonprofit organization under the control of the board of directors of BRIDGE Housing Corporation.

BRIDGE was established in 1983 to find and implement solutions to the worsening shortage of affordable housing in the Bay Area of California. Its reach has expanded to other high-cost areas in the state and is now one of the largest affordable housing developers in California. Since its inception, BRIDGE has built over 11,000 affordable homes—including a substantial number of homeownership units—and has 2,000 more in the pipeline. BRIDGE was initially funded by a major anonymous grant and now finances itself primarily through operations.

The property is managed by the BRIDGE Property Management Company (BPMC), which was established by the BRIDGE in 1987. BPMC manages most of the BRIDGE properties and has over 7,000 rental and homeownership properties in its portfolio.

## **Section 3: Property, Residents, and Neighborhood**

### **a. Basic Property Information**

Montevista has 306 units in 19 garden-style buildings. The buildings are clustered in seven groups and have yellow and brown painted stucco-style exteriors in what the brochures refer to as an “Italian-Mediterranean style.” Between the building clusters are green spaces with shade trees, and benches. The green spaces are bordered by sidewalks to delineate the walking paths and mark the boundaries between semi-private and public space. The development has restricted access through gated parking lot and pedestrian entrances. The rest of the development either has a vine-draped wall or wrought iron fencing along its perimeter. Immediately outside the development boundaries are fairly busy streets and on only one side is there other residential housing directly across the street. This makes the development somewhat of its own community, not closely tied with other residential communities in the City.

Community amenities at Montevista include a large swimming pool and jacuzzi, a fitness center, a business center, 3 children’s play areas, 7 barbecue and picnic areas, and a sport court. The amenities were chosen to be competitive with other quality market-rate developments in the area.

Each unit has an enclosed, private garage—in some cases the garage is attached to the unit, but in most cases the garages are attached to each other in a row between or behind the residential buildings on the parking lot side. Each unit is also assigned a surface parking spot for a second car or for visitors. A balcony or patio is attached to each unit. The units are relatively large (e.g., 2-bedroom units range from 908 to 997 square-feet). A few units have cathedral ceilings and all have washer-dryer hook-ups.

Just over half the units are two bedrooms (53 percent) and the remaining units are split between one and three-bedroom units. (See Exhibit 1.) All of the two- and three-bedroom units contain 2 full baths. Sixteen of the two-bedroom units are “dual masters,” which means they have two master bedrooms with the living areas in between. They are larger than the other two-bedroom units.

*Table 1: Unit and Income Mix: Montevista*

<b>Unit Composition</b>	<b>1 BR</b>	<b>2 BR</b>	<b>3 BR</b>	<b>TOTALS</b>
LIHTC <50% AMI	18	41	28	87
LIHTC <60% AMI	17	41	18	76
Market	37	83	23	143
<b>TOTAL UNITS</b>	<b>72</b>	<b>165</b>	<b>69</b>	<b>306</b>

## **b. Resident Characteristics**

Montevista has both a significant share of extremely low-income households (< 30% of the area median adjusted for family size) and a significant share of households with income above the median. (See Table 2.) The income range is from zero to over \$200,000 or from 0 to 300 percent of the area median. The median income is just over \$44,000, which is between 50 and 60 percent of the area median for a family of two in the San Jose metropolitan area. The San Jose Metropolitan Area has one of the highest median incomes in the country.

Households typically contain between one and three people, though there are a few households with five or more people. Most households are headed by a working adult. Racial/ethnic data are not available, but management staff report Montevista has a diverse mix of whites, Asians, and Hispanics like the city of Milpitas.

*Table 2: Resident Characteristics*

<b>Resident Characteristics</b>	<b>Numbers</b>	<b>Percentage</b>
<b>Number of Households</b>	283	100%
<b>Number of Residents</b>	687	100%
<ul style="list-style-type: none"> <li>• <b>Household Size</b> <ul style="list-style-type: none"> <li>○ <b>One person</b></li> <li>○ <b>Two People</b></li> </ul> </li> </ul>	<div>75</div> <div>84</div>	<div>26.5%</div> <div>29.7%</div>



<b>Resident Characteristics</b>	<b>Numbers</b>	<b>Percentage</b>
<ul style="list-style-type: none"> <li>○ <b>Three People</b></li> <li>○ <b>Four People</b></li> <li>○ <b>Five to Seven People</b></li> </ul>	70 40 14	24.7% 14.1% 4.9%
<ul style="list-style-type: none"> <li>• <b>Income as a percent of family-size adjusted Area Median Income (AMI)</b> <ul style="list-style-type: none"> <li>○ <b>&lt;30%</b></li> <li>○ <b>31 to 50%</b></li> <li>○ <b>51 to 60%</b></li> <li>○ <b>61 to 80%</b></li> <li>○ <b>80 to 100%</b></li> <li>○ <b>&gt; 100%</b></li> </ul> </li> </ul>	54 87 31 41 15 55	19% 31% 11% 15% 5% 20%
<ul style="list-style-type: none"> <li>• <b>Average Income</b> <ul style="list-style-type: none"> <li>○ <b>Median</b></li> <li>○ <b>Mean</b></li> </ul> </li> </ul>	\$44,433 \$52,924	-- --
<ul style="list-style-type: none"> <li>• <b># of Section 8 Voucher Holders</b></li> </ul>	40	14%

### c. Neighborhood Characteristics

Milpitas is a city of approximately 63,000 residents located outside San Jose in the Silicon Valley. It is a relatively prosperous city with a median income over \$80,000 and only a five percent poverty rate. (See Table 3.) A majority of the residents are Asians, but there are significant shares of whites and Hispanics.

The neighborhood adjacent to Montevista contains luxury rental and homeownership townhomes and condominiums. Two-bedroom townhouses diagonally across from Montevista were advertised for sale at over \$600,000. The Great Mall, the largest Mall on the West Coast, is just one-block away. It has movie theaters, restaurants, and just about every type of retail store available. Another side of Montevista is bordered by a fire station. A new luxury homeownership development is planned on a plot of land next to the fire station. On the backside of the development, across a busy road, is a County Correctional facility. The design of Montevista purposely faced away from this direction and land berms, walls, and gates mitigate its presence. The fourth side of the development is bordered by an elevated light-rail and station. Pedestrian exits from Montevista are across the street from the light rail entrance, which make the light rail convenient for commuting.

The Census Tract that Montevista is in has a median income almost twice as high as the Montevista median, but the neighborhood income is slightly less than the city overall. The racial/ethnic mixture of the neighborhood is more heavily Hispanic and less Asian than the city as a whole, but both are quite diverse. The neighborhood is also 40 percent homeownership compared to 70 percent in the entire city, but Montevista's 306 rental units are driving that difference. There are no other rental complexes in the

neighborhood, although some of the townhomes and condominiums are rented by their owners.

*Table 3: Summary Neighborhood (Census Tract) Information*

<b>Characteristic</b>	<b>Montevista Census Tract</b>	<b>Milpitas</b>
<b><i>Population</i></b>		
Number of Households	765	17,132
Number of Residents	5478	62,698
<b><i>Neighborhood Income Levels</i></b>		
2005 HUD Estimated MSA Median Family Income	\$93,900	\$93,900
2004 Est. Median Family Income	\$80,198	\$84,429 (in 1999)
Tract Median Family Income %	85.4%	--
% Below Poverty Line	3.5%	5.0%
<b><i>Race/Ethnicity</i></b>		
% White (non-Hispanic)	21.4%	23.8%
% Asian	26.0%	51.5%
% Black	8.1%	3.3%
% Hispanic	39.7%	16.6%
% Multiple Races/Other race	4.8%	4.7%
<b><i>Neighborhood Housing</i></b>		
Total Housing Units	794	17,364
Median Age of Housing Stock (years)	9 (Late 1990s)	--
% owner occupied	39%	69.8%
% renter occupied	56%	30.2%
% vacant	5%	1.3%

Sources: For Census Tract, [www.ffiec.gov](http://www.ffiec.gov); For City, [www.bayareacensus.ca.gov/cities/Milpitas.htm](http://www.bayareacensus.ca.gov/cities/Milpitas.htm).

## **Section 4: Maintaining High Occupancy Rates and Positive Cash Flow**

Renters started living on site in the fall of 1998 even though all of the units were not available until early 1999. The rental market was tight then, so occupancy was stabilized quickly. The main challenge was handling the volume of paper processing and verification needed for tax credit renters. In the first few years, the occupancy rate averaged 98 percent. The Silicon Valley economy took a downturn starting in about 2000 and additional housing developments in the pipeline during the boom came on line

during the early 2000s. The combination has made it a lot more challenging since 2002 to fill the market-rate units.

There are many reasons Montevista has remained successful to this point during both ups and downs in the market. A few of the key reasons are discussed below.

**a. A Realistic Pro Forma that did not Depend on the Boom Continuing**

In the pro forma, BRIDGE planned for rent increases of just 2 percent per year and a vacancy rate of 5 percent per year. These conservative projections were made even though the rental market was extremely tight in the mid- and late 1990s. In fact, the rent increased at a much faster rate in the early years. For example, market-rate rents in the two-bedroom units increased from \$1,300 to \$1,800 per month between 1998 and 2002. Since that time, two-bedroom rents have actually decreased to \$1,500. However, while it is a much more difficult market to rent units, the rents are still at the pro forma projections and the occupancy projection of 95 percent is still being met. By being conservative, the owner has been able to weather the rental market downturn.

**b. Property Staff are Accessible and Visible**

Property management at Montevista can be reached 24 hours a day. The property manager and the two assistant managers take turns being on call during the late evening and overnight hours. A resident can reach the on-call person at anytime. The on-site management office is also open on nights and weekends to accept applications and respond to resident needs. The property manager, one of the assistant managers, and a maintenance staff person also live on site. Even when not on duty, this provides extra visibility to the residents and extra monitoring of the property. A courtesy patrol also patrols the development at least five days during the evening and overnight hours. On two of the patrols, the courtesy patrol officer walks through the entire development. Residents can also call the courtesy patrol whenever they need to. The property manager reviews the courtesy patrol reports every morning and deals with any issues raised.

**c. The Financing Enables Affordable Rents and a Positive Bottom Line**

Approximately 40 percent of the development costs are from grants, tax credit equity, or soft loans. The soft loans only need to be repaid when there is surplus cash to distribute. Hence, when the market is soft, these are not an extra cost burden. The maximum tax credit rents are set by tax credit program rules. Montevista rents are about two-thirds the maximum which allows renters with incomes below the tax credit income maximums to live there without an excessive rent burden.

Market-rate renters are charged between 50 and 75 percent more than tax credit renters. Nevertheless these market rents are approximately \$75.00 per month less than the nearby comparables. (See Table 4.) This helps attract market-rate renters. However, the asset manager reported that there used to be a larger rent difference between Montevista and

their competition; they lost much of this competitive advantage when the market got softer.

*Table 4: 2004 Rent Schedule at Montevista*

Unit Size	Montevista 50% AMI Rents	Montevista 60% AMI Rents	Average Montevista Market-Rate Rents (2005)	Market Comps: <3 Miles (2005)
1 BR	\$718	\$844	\$1210	\$1,274
2 BR	\$853	\$993	\$1510	\$1,579
2BR/Dual Master	\$853	\$993	\$1610	--
3 BR	\$1007	\$1,176	\$1810	\$2,142

Note that <50% and <60% of AMI rents have a utility allowance already deducted in the rent shown here.

#### **d. Thoughtful Design with Curb Appeal in Mind**

The initial design and maintenance of Montevista focuses on curb appeal. The goal of the owner is to have it look 100-percent market rate. It was also designed to distance itself from some of the visual disamenities near the development. The property is enclosed by a gate or vine-covered walls throughout to define the community space. The buildings are set back from the public sidewalks to provide a feel of open space and privacy. The interior of the development has open green space with tree-lined sidewalks and well-manicured lawns. The buildings are painted in light yellow and brown hues with the bottom portion of the building in slightly darker colors to hide dirt and handprints. The pool area is surrounded by lush landscaping that evokes the Mediterranean theme of the development. The pool was centrally built adjacent to the management office where there are fewer buildings to echo the poolside sounds. Natural sound barriers (trees and berms) were strategically placed on the side nearest the elevated light rails in anticipation of the light rail that was planned for several years after the property opened.

#### **e. Focused on Attracting Market-Rate Renters**

From the beginning, the owner knew that drawing market-rate renters to pay significantly more rent than tax credit renters would be the biggest challenge to being successful. They knew the attractive rents would draw the tax credit renters. Hence, right from the beginning, they focused on selling the development to market-rate renters. The pre-redevelopment planning focused on what amenities would attract market-rate renters. They decided to include amenities such as a fitness center, a sport court, a business office, and enclosed garages. And, as discussed above, they focused on curb appeal that would keep pace with or exceed their market-rate peers. The owner also hired

consultants to help name the development, develop signs, and brochures to help sell the development to market-rate renters. They also hire leasing agents who are skilled in selling and leave the management and tax credit compliance issues to management staff. While the leasing agents work with both tax credit and market rate renters, the market-rate turnover is much higher so the leasing agents need to be able to sell to market-rate renters. They have both a two-bedroom and a three-bedroom model unit. The asset manager stated that they keep them because that is what market-rate renters expect and this allows the owner to place them where they want and decorate them in an appealing way.

## Section 5: Financing Sources and Costs

### a. Funding Sources

BRIDGE needed to obtain financing from 8 different sources to develop Montevista. A \$26 million dollar permanent loan from the California Housing Finance Agency (CHFA) was the largest funding source. It covered 60 percent of the development cost. It is also the only loan where neither the principal nor interest payments are deferred. Tax credit equity, a Santa Clara County Land Loan, and a Milpitas Redevelopment Authority loan are the next largest sources of funding. (See Table 5.)

*Table 5: Sources of Funds for Montevista*

Sources of Permanent Funds	Amount	Percentage of Total Sources
CHFA Tax Exempt Bonds	\$26,000,000	60.5%
Tax Credit Proceeds	\$7,204,503	16.8%
County Land Loan	\$5,081,252	11.8%
Milpitas RDA Loan	\$3,415,342	7.9%
County Home Loan	\$475,830	1.1%
Early Occupancy Income	\$414,769	1.0%
County CDBG Loan	\$279,544	0.7%
CDBG Grants	\$121,930	0.3%
<b>Total Sources</b>	<b>\$42,993,170</b>	<b>100.00%</b>

**Source:** Milpitas Housing Associates Schedule of Sources and Uses of Funds Final Cost Certification (Feb 9, 2000)

### b. Development Costs

It cost \$140,501 per unit to develop Montevista. Construction costs at almost \$98,000 per unit accounted for 70 percent of the costs. Land costs for the vacant parcel were \$23,008 per unit or just over \$7 million dollars. (See Table 6.)

Table 6: *Distribution of Project Costs for Montevista*

Type of Cost	Amount	Percentage of Total Costs	Cost Per Unit
Total Construction Costs	\$29,918,159	69.6%	\$97,771
Land	\$7,040,389	16.4%	\$23,008
Financing, Legal Fees, and interest	\$2,345,290	4.5%	\$7,664
Developer and Syndication Fees	\$1,200,000	3.7%	\$3,922
Pay CHFA Bridge Loan Interest	\$835,080	1.9%	\$2,729
Furnishings	\$649,000	1.5%	\$2,121
Reserves	\$605,274	1.4%	\$1,978
Marketing and Lease-up	\$399,978	0.9%	\$1,307
<b>Total Costs</b>	<b>\$42,993,170</b>	<b>100.0%</b>	<b>\$140,501</b>

**Source:** Milpitas Housing Associates Schedule of Sources and Uses of Funds Final Cost Certification (Feb 9, 2000).

### c. Income and Operating Expense Trends

Montevista started renting units in the fall of 1998, but all of the units were not available until early 1999. In the first few years of operation—through the beginning of 2003—the rental market was strong and property income was growing. However, since that time the market has been softer and income has been declining while the costs of vacancies and concessions have been growing. Exhibit 7 shows that the costs of vacant units and concessions grew by 73 percent from 2001 to 2004 while income grew by only 1.7 percent. In fact, income in 2004 was lower than either 2002 or 2003. The surplus cash, which is distributed for incentive fees and payment of principal on loans declined from over \$300,000 in 2002 (the peak revenue year) to approximately \$80,000 in 2004. The BRIDGE asset manager is monitoring the situation closely and has worked with the property manager to institute a more aggressive marketing push. The asset manager, the property manager, and the BPMC property manager supervisor meet weekly to review vacancies, closing ratios, and marketing strategies. In 2004 and 2005, they have had to offer more rent specials to keep the vacancy rate above 95 percent.

Nevertheless, they have been able to maintain healthy operating and replacement reserves. At the end of 2004, the operating reserve was at \$384,000 (\$1,255 per unit) and the replacement reserve was at \$581,000 (\$1,899 per unit).

*Table 7: Change in Revenues, Rent Losses, and Expenses Over Time*

Income/Expense	2001	2002	2003	2004	Percentage Change 2001 to 2004
Gross Potential Income	\$3,986,671	\$4,048,297	\$4,209,966	\$4,297,350	+7.8%
Vacancies/Concessions	\$345,966	\$303,444	\$457,220	\$598,833	+73.1%
Total Income (includes non-rent income such as interest)	\$3,730,722	\$3,836,126	\$3,884,308	\$3,793,309	+1.7%
Operating Expenses	\$1,362,379	\$1,502,048	\$1,572,758	\$1,676,161	+23.0%
Net Operating Income	\$2,368,343	\$2,334,078	\$2,311,550	\$2,117,148	-10.6%

Sources: Financial Statements and Independent Auditor's Report December 31, 2002 and 2001 and December 31, 2004 and 2003.

Note: The first units became available for occupancy in fall 1998 and all units were available by February 1999.